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SIPDIS

STATE FOR EAP/MLS AND DAS MARCIEL; USDOE FOR INTERNATIONAL
AFFAIRS

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [PBTS](#) [PREL](#) [VM](#)

SUBJECT: BP TRANSFERS OPERATORSHIP OF SOUTH CHINA SEA
BLOCKS TO PETROVIETNAM; EXPLORATION WORK RESUMES

REF: A. (A) HANOI 1599: "SINO-VIETNAM DISPUTE ENTANGLES
MULTIPLE MULTINATIONAL"

[1](#)B. (B) HANOI 1401: "GVN REQUESTS ACTION TO STOP
U.S. COMPANY FROM DRILLING"

Classified By: AMBASSADOR MICHAEL MICHALAK FOR REASONS 1.4 (B) AND (D)

[1](#)1. (C) Summary: BP Vietnam has complied with an order by state-run PetroVietnam (PVN) and turned over operatorship of its South China Sea Blocks 5.2 and 5.3 to PetroVietnam Exploration and Production Company (PVEP), a PVN subsidiary. BP is a majority stakeholder with ConocoPhillips (CP) in 5.2/3, which lie in disputed waters claimed by China. In June 2007, China warned BP to cease work in the two parcels. PVEP will undertake three exploration projects this year, including a geophysical survey begun in April and currently underway; a geotechnical survey that will start in July 2008; and a 3D seismic blasting survey that will get underway in late July, shortly before the opening ceremonies of the Olympics. BP/CP have not informed China about the change in operatorship and the companies evidently have no plan to do so. It is unclear if China knows that PVEP has resumed exploration work in the area. End Summary.

[1](#)2. (C) In a May 13 meeting with the Ambassador, BP Vietnam General Director Gretchen Watkins said BP had complied with state-run PetroVietnam's order to transfer operatorship of its South China Sea Blocks 5.2 and 5.3 to PVN's subsidiary, PetroVietnam Exploration and Production Company, which will execute BP's 2008 work program in an effort to avoid further delay in the gas-to-power project. BP is a majority stakeholder with ConocoPhillips in 5.2/3, which lie in disputed waters claimed by China. In June 2007, China warned BP to cease work in the two parcels or face "economic consequences" (Ref A). BP, which maintains a significant energy portfolio in China, relented by suspending and eventually cancelling its 2007 work program.

[1](#)3. (C) According to Watkins, PVEP will conduct three projects during the 2008 work program: a six-week geophysical survey that began in April 2008 and is currently underway; a six-week geotechnical survey that will start in July 2008; and a six-week 3D seismic blasting survey that will get underway in late July, just before the opening of the Beijing Olympics. Watkins emphasized that BP and CP would still hold the concession for 5.2/3 and that PVEP would act as the operator for these 3 projects only. Neither BP nor CP would operate in the parcels in 2008, she said. Watkins said that neither BP nor CP had informed China about the change in operatorship and the companies evidently have no plan to do so. She also said it is unclear whether China knows that PVEP is currently conducting offshore exploration in the area.

[1](#)4. (C) Although BP has continued its ongoing joint dialogue

with PVN and China's CNOOC, Watkins complained that the two state-run energy companies have thus far avoided raising the South China Sea dispute during their standard commercial negotiations, effectively designating BP as the "channel" for a commercial solution. Watkins said she has received positive comments from both sides who seem to want BP to continue its efforts, even though those attempts have proved fruitless thus far. Ultimately, the failure of CNOOC and PVN to even raise the possibility of joint commercial agreements for overlapping claims in the South China Sea (or "East Sea" as the Vietnamese refer to it) relegates the Sino-Vietnam territorial dispute to the diplomatic sphere, she said.

15. (C) Watkins noted that the US-ASEAN Business Council recently submitted a strategic White Paper to the ASEAN Secretary-General, which includes recommendations for resolving overlapping claims disputes in the South China Sea. ConocoPhillips coordinated the effort among U.S. energy companies doing business in the region.

16. (C) Comment: With one ship already in the area, China may be ignoring this latest development in the "East Sea" saga. The start of seismic blasting in late July, however, shortly before the opening ceremonies of the Summer Olympics, could serve as a red flag for China.
MICHALAK